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SUBJECT: LEBANON: CABINET APPROVES FIRST WAGE INCREASES SINCE 1996
(ECONOMIC WEEK IN REVIEW, SEPTEMBER 8 - 14, 2008)

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CABINET RAISES MINIMUM WAGE,
BOTH WORKERS AND EMPLOYERS DISSATISFIED

1. (U) During its September 9 session, the cabinet decided to raise the minimum wage for the private and public sectors from 200 to 333 dollars per month (the first minimum wage increase since 1996) and the transportation allowance from 4 dollars to 5.30 dollars per day. In addition, it mandated a 133 dollar increase for all private and public sector wages and a 100 dollar increase on retirees' monthly pension checks. All these increases will be implemented retroactively to May 2008. Finance Minister Mohammad Chatah noted that the increase in public sector salaries would cost the treasury around 500 million dollars per year.

2. (U) The General Labor Confederation (GLC), which had been demanding that the minimum wage be raised to 640 dollars per month, expressed its disappointment that the increase was not greater. Meanwhile, President of the Association of Lebanese Industrialists Fadi Abboud characterized the government's decision to impose private sector wage increases as interference. Abboud noted that if the government imposes wage increases on the private sector -- transforming the Lebanese economy from a liberal to a command economy -- it should also be ready to support industries with subsidized electricity and fuel.

FINANCE MINISTER CONCERNED
ABOUT BUDGET AND DEBT PROBLEMS

3. (SBU) Chatah told the Ambassador on September 10 that the new

wage increases would worsen the GOL's budget situation, but he said revenue from four tax measures he convinced the cabinet to pass as part of the wage increase package would cover about half the cost of the increases themselves. With this additional spending, in addition to two billion dollars of projected losses at national power utility Electricite du Liban (EDL), Chatah was pessimistic about any possible improvement in the deficit or budget position in 2008 and 2009.

MINISTRY OF ECONOMY REINSTATES
LIMITS ON PROFIT MARGINS

¶4. (SBU) On September 9, the Ministry of Economy and Trade (MOET) reinstated limits on profit margins in the trade sector, in view of global inflation, the rise in the prices of foodstuff, and to enhance consumer protection. Former Minister Sami Haddad had lifted the limits in compliance with WTO requirements. In a meeting with the Ambassador on September 11, current Minister Safadi explained that he felt compelled to take this measure because he saw price collusion in the Lebanese market. Safadi also mentioned that he plans to expand the consumer protection unit at the ministry by adding 100 new inspectors to the 40 already at the unit, to better monitor the market.

ENVIRONMENT MINISTER
TO TRAVEL TO THE U.S.

¶5. (SBU) On September 8, Econ Off and staff met with Minister of Environment Antoine Karam and his advisors to assist them in preparing for Karam's visit to the U.S. the last week of September. Karam hopes to meet with the State Department, EPA, U.S. Forest

Service, and USAID officials, as well as NGOs and members of private environment-related institutions, and possibly sign MOUs for future cooperation and assistance. Karam is a member of the Lebanese Forces party of Samir Geagea.

¶6. (SBU) Asked what he planned to achieve during his short term as minister (until the spring 2009 parliamentary elections), Karam said he hoped to establish a network of local environment-related NGOs which would become the ministry's primary source of information on environment-related issues or incidents throughout Lebanon. Karam made a pitch for U.S. assistance in providing NGOs with cameras and other necessary equipment to enable NGOs to report to the ministry.

UNEMPLOYMENT RATE BETWEEN TEN
AND 15 PERCENT AND DECLINING

¶7. (U) According to the Arab Labor Organization's (ALO) first report on employment in Arab states, Lebanon's unemployment rate ranged between ten and 15 percent, below the regional average (above 15 percent), yet high by international standards. The report stated that the unemployment rate in Lebanon is declining, mainly due to migration to the Gulf countries and improvement in economic activity in the last quarter of 2007. The ALO noted that the wholesale and trade sectors absorbed 24.4 percent of the labor force, followed by construction (20.5 percent), transformational industries (13.6 percent), while the rest is distributed among transportation, communications, finance, insurance, real estate, agriculture, social, and personal services (41.5 percent).

DOLLARIZATION OF DEPOSITS STEADILY DECLINING,
FIVE PERCENT GDP GROWTH PROJECTED FOR 2008

¶8. (U) During his monthly meeting with the Association of Banks in Lebanon on September 11, Central Bank of Lebanon (CBL) Governor Riad Salameh said the dollarization of deposits currently stood at 73.5 percent, compared to 77.5 percent in May. The CBL's gross foreign currency assets reached a record high of 17 billion dollars -- excluding gold reserves and CBL real estate and investments, which would add 10 billion dollars to the CBL's foreign currency assets. Salameh projected five percent GDP growth for 2008 and did not expect a change in interest rates or the exchange rate any time

soon. Salameh also noted that public sector deposits at the CBL can cover the increase in GOL expenditure resulting from the rise in wages.

MERRILL LYNCH MAINTAINS "MARKET WEIGHT"
RECOMMENDATION ON LEBANESE EUROBONDS

¶9. (U) Merrill Lynch maintained its recommendation on Lebanon's external debt to "Market Weight" in its model portfolio of emerging markets debt for September due to the positive political developments resulting from the formation of a cabinet and decline in domestic political tensions. Merrill had upgraded Lebanon to "Market Weight" from "Underweight" following the Doha Agreement in May. Lebanon has been one of the best performers since it was upgraded, Merrill noted, posting the second highest return at 8.31 percent among 10 countries in the Europe, Middle East, and Africa (EMEA) region from January to August 2008.

LEBANON FALLS IN "DOING
BUSINESS IN 2009" RANKING

¶10. (U) The World Bank/IFC "Doing Business 2009" report ranked Lebanon 99 out of 181, down from 98 in 2008 in terms of ease of doing business. Lebanon's only improvement was noted in the area of streamlining business registration, reducing the time needed to start a business from 46 days to 11, and eliminating one procedure. The "Doing Business" report ranks economies based on ten indicators: ease of starting a business, dealing with construction permits, employing workers, registering property, access to credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business.

LEBANON RANKS SIXTH IN INTERNET
PENETRATION IN MENA REGION

¶11. (U) According to Internetworldstats.com, Lebanon ranked sixth out of 14 MENA countries in terms of internet penetration, with internet users constituting 24.2 percent of the population in 2007. Compared to other MENA countries, Lebanon accounted for three percent of total internet users for 2007, while growth in internet usage in 2000-2007 was 217 percent, the fourth lowest rate in the region. Internetworldstats.com compiles data from a variety of sources including internet media, market researcher Nielsen Net Ratings, and the International Telecommunications Union (ITU).

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